INTERIM REPORT OF THE ONTARIO TASK FORCE ON FINANCIAL INSTITUTIONS

Task Force Members
J. Stefan Dupré, Chairman
A. Rendall Dick, Q.C.
Alexander J. MacIntosh, Q.C.

A Report to
The Honourable Robert G. Elgie, M.D.
Minister of Consumer and Commercial Relations

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Ministry of Consumer and Commercial Relations

Ministère de la Consommation et du Commerce

The Ontario Task Force on Financial Institutions
101 Bloor Street West
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December 28, 1984

The Honourable Robert G. Elgie, M.D.
Minister of Consumer & Commercial Relations
555 Yonge Street
Toronto, Ontario
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Dear Minister:

In accordance with the terms of reference given to us on June 13, 1984, we are pleased to submit the following Interim Report.

Yours sincerely,

J. Stefan Dupré

J. Stefan Dupré

A. Rendall Dick

A J MacIntosh

Alexander J. MacIntosh

I. Introduction and Overview

In June 1984, the Minister of Consumer and Commercial Relations, the Honourable Robert Elgie, announced the creation of this Task Force "to examine the organization and operation of financial institutions in Ontario and determine what pressures on that financial system may require attention from government".[1] In accordance with this mandate, we have been examining a broad range of concerns and, during the last six months, have engaged in extensive consultation and enquiry.

It is clear that the pressures for change generated within and without the financial services industry of Ontario are both complex and interconnected. To a very large extent, the work of the Task Force will attempt to determine these pressures and the degree and pace to which, during the coming months and years, they may be driving or merely facilitating change within the industry.

It would be unwise to perceive the erosion of functional barriers between the differing types of financial institutions as a recent or isolated phenomenon. As the 1964 Report of the Porter Commission[2] explained, Canadian financial institutions have been competing aggressively with one another for a considerable length of time.

> In the course of the growth and development of the last three decades, and particularly since the end of the war, the financial institutions and markets have become much more flexible and competitive. While there are still traces of a reluctance to change, and of an exaggerated reliance on prestige in some institutions, it is generally true that the opportunities for undertaking profitable new lines of business and the sweeping changes in the financial environment both at home and abroad have caused undue conservatism and a lack of imagination to give way to a more adventurous and innovating spirit. Thus the older institutions have undergone pronounced changes in their character and attitudes and have moved into new lines of business, while on all sides a greater willingness to compete by price and other measures has accompanied the growth of more vigorous and varied intermediaries and markets. ... (T)he traditional division of the financial business into semi-private preserves has been replaced by a more open system in which virtually no-one feels bound to stay only in the field where he first got his start, and almost everyone is subject to competition from both newcomers and established institutions.[3]

The Role of Technology

This trend towards diversification within the industry has been greatly facilitated by the advances of technology. As noted in the annual report of a major American financial institution, "Technology has changed forever the way people communicate, the way they live and transact business, even the way they relate to money. ...(T)he phenomenon revolutionizing the industry -- and the world as

1. See Appendix A.
2. *Report of the Royal Commission on Banking and Finance*, (Ottawa: Queen's Printer, 1964).
3 *Ibid*, p. 108.

well -- is the instantaneous exchange of funds and information by electronic means."[4] It is not surprising that technology has affected the development of the financial services industry, which depends so critically on the exchange of timely information. Increasing numbers of financial institutions are acquiring computer and telecommunications technology to enhance their efficiency. Its acquisition costs (which are characteristically high) may be met by higher service charges for consumers, by a diversification of the client base or by an expansion of the product line in order to fill the surplus capacity often generated by a new technology. It has been argued that technology forces institutions to seek new clients to recover these acquisition costs. This may induce them to diversify the range of products offered or it may simply enhance the geographic boundaries of the current market by allowing more extensive communication and distribution across greater distance. To the extent that such changes emerge from technology, their value will depend on the ability of the financial industry to provide more effective and less costly services to clients.

The Changing Nature of Financial Business

The advent of technology has been a catalyst to the internationalization of financial markets. While it was always feasible to conduct business across international boundaries, the instantaneous nature of electronic data transfer has facilitated the creation of a twenty-four hour global market for financial services. With the ease of a phone call or the push of a button, funds may be transferred instantly anywhere in the world.

This trend towards internationalization makes the financial services industry particularly sensitive to changes in competing regulatory regimes. Ontario institutions are understandably concerned that the last, or for that matter the next, wave of deregulation within the United States, the United Kingdom or within Canada itself may erode their competitive position.

In addition, the increasing institutionalization of savings, whereby pools of capital are assembled and invested by managed funds rather than individuals, has made financial services firms more vulnerable to the vagaries of the marketplace. The loss of one institutional investor to a more appealing jurisdictional climate may have far greater consequences than the similar decision of a number of individual investors.

Yet even the individual consumer of financial services has generated demand for change within the industry. Consumers have become far more sophisticated in their attempts to prevent inflation from eroding the real value of their financial assets. To the extent that public opinion research has been conducted in this area, consumers appear to be demanding greater flexibility and convenience from the financial services industry.[5] In addition, the changing demographic profile of the Ontario consumer suggests that certain financial products, which traditionally serviced the longer-term needs of the population, are declining in popularity as the average age, and hence the life expectancy, of that same population increases (as evidenced by the trend away from traditional life insurance products to retirement annuities).

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4. 1981 Annual Report of Citicorp, quoted in Austin Taylor, "Structure by Default: Canada's Approach to its Capital Market", *Business Quarterly*, Summer, 1984, p. 24.
5. Decima Research, *Quarterly Report on Public Affairs Trends*, Toronto, Summer, 1984.

Like those firms operating in the non-financial sector, financial institutions have felt the impact of a sustained, global recession and of recurring bouts of inflation. In particular, the volatility of American interest rates and their rise to unprecedented heights in both nominal and real terms produced a massive movement of investor preference towards short-term financial instruments. As interest rates fluctuated, those institutions which failed to match the terms and the diversity of their assets to those of their liabilities were 'caught in the squeeze'. Most recently, substantial losses on loans led to the collapse of one of North America's leading financial institutions, the Continental-Illinois Bank. The possibility of very large losses on loans to the Third World has caused many observers to worry about the integrity of the banking system should any significant repudiation of these loans take place.

In Ontario itself, the public apprehension which accompanied the government's taking possession and control of three trust companies has already suggested that some changes to the legislative framework in which deposit-taking institutions operate are required to ensure both their solvency and the interests of the public.

Clearly, these pressures for change within the financial services industry can and will be the subject of further probing by this Task Force. However, the degree to which changes are already occurring suggests that such a review must proceed in as timely and expeditious a manner as possible.

Pressures for Deregulation

As mentioned above, deregulation is already taking place in important and proximate jurisdictions. In particular, the enactment of Bill 75 in the Province of Quebec[6] has forced debate upon the nature and the pace of change in other Canadian jurisdictions. This legislation authorizes Quebec-chartered insurance companies to engage in a number of non-insurance activities without the prior approval of the responsible minister. In addition, with ministerial approval, it provides them the opportunity to conduct virtually any kind of financial intermediation. Furthermore, the Quebec government has announced its intention to proceed in a similar vein with changes to its legislation governing trust companies and caisses populaires, thereby producing a *de jure* elimination of the current boundaries between financial intermediaries operating within that jurisdiction.

In the United Kingdom, there has been a trend towards deregulation within the securities and general insurance industries. Similarly in the United States, the heated debate in Congress over the role and powers of banks and non-bank holding companies promises to generate changes in their regulatory regimes. A number of states (including South Dakota, Delaware and Massachusetts), have already moved to liberalize laws governing financial institutions and many are considering further legislation which would grant state-chartered banks permission to underwrite securities and sell insurance. At least 600 banks and savings and loan associations in the United States already have entered the discount brokerage business.[7]

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6. An act to amend the Act respecting insurance and other legislative provisions, S.Q. 1984 c.22.
7. "Bankers as Brokers: The Legal Wall Between Them Crumbles as Banks Get More Aggressive", *Business Week*, April 11, 1983, p. 70.

Adjustments within the Marketplace

The current realities of the financial services marketplace are even more relevant than regulatory reform to this discussion. Whether regulators are prepared for or receptive to change, such change is taking place throughout the industry. In the United States in particular, merger activity has resulted in a *de facto* lowering of functional and institutional barriers, within the financial sector and beyond it.

The large mergers were well publicized. For example, Prudential Insurance Company of America acquired Bache Group Inc., a leading securities dealer, in April 1981, to become Prudential-Bache. American Express, one of the world's largest credit card concerns, acquired two brokerage firms, Shearson Loeb Rhodes and Lehman Bros. Kuhn Loeb Inc. In recent years, American Express has also bought another financial institution, Investors' Diversified Services. For its part, Sears Roebuck and Company (the largest retailer in the United States) added Coldwell, Banker and Company, a real estate brokerage company, to its ownership of Allstate Insurance and also acquired Dean Witter, the fifth largest brokerage firm in the United States. Sears Roebuck hopes to have financial centres in 300 of its 806 stores by the end of 1984.[8]

In addition to the emergence of these new financial conglomerates, the American experience has been highlighted by new product innovations which have served to blur traditional functional and institutional segregation. Examples are the cash management account, offered originally by Merrill Lynch, which provided chequing and credit services, money market funds designed as demand deposits with no interest restrictions, and the Negotiated Order for Withdrawal (or NOW) accounts offered by mutual savings banks as interest-bearing chequing accounts.

It should be noted, however, that this blurring of institutional and functional distinctions between the financial services institutions has not received the universal support of the consumer, the marketplace or regulators. No consensus has emerged in the U.S. Congress on the question of expanding bank powers. The Administration's Task Group on the Regulation of Financial Services, chaired by Vice President Bush, became the subject of debate during the summer of 1984 as "territorial warfare among the various regulators and interest group pressures delayed final release of a very watered-down version of the grand regulatory rationalization scheme envisioned by the task group staff and others two years ago."[9]

This recent reluctance to move quickly on a deregulation of the financial services industry is largely rooted in the near-collapse of a number of financial institutions, notably America's eighth largest bank, Continental Illinois. Despite the presence of federal deposit insurance and the ability of the bank itself to cover much of its $1 billion in dubious loans to the energy sector, institutional depositors began to remove their funds, triggering a run on the institution. More generally, the rising ratios of non-performing loans to total assets signalled the collapse of another fifty American banks in 1984 alone -- the worst record of bank

8. "The Peril in Financial Services", *Business Week*, August 20, 1984, p. 54.
9. L.W. Sempel "Bush Task Group Issues Long Delayed Recommendations on Financial Services Regulatory Reform", *The Government Research Corporation*, Washington D.C., November 19, 1984, p. 1.

failure since the Great Depression. Over 1,100 thrifts had already disappeared as a result of mergers or reorganizations in 1982[10] and the largest U.S. thrift, Financial Corporation of America, experienced a Continental-like run when depositors removed $1.4 billion in one month alone, July, 1984.

General insurance companies, seen as superior acquisitions when interest rates reached their most recent peak, lost some of their attraction in 1984, with American Express executives reportedly shocked over the large losses recorded by their insurance subsidiary, Fireman's Fund.[11] Dean Witter, once regarded as a blue-chip securities firm, proved an equally large drain on the earnings of Sears Roebuck, as it lost $22.7 million in one quarter of 1984 alone.[12]

Integration Trends in Canada

These rather unsettling facts have left a number of Canadian institutions undaunted in their acquisition of financial holdings and services. A similar wave of merger activity took place in the trust (National-Victoria and Grey), securities (Dominion Ames-Pitfield Mackay Ross), and real estate brokerage (Royal Trustco-A.E. LePage) sectors of the Canadian financial industry. Product innovations have similarly tended to blur institutional distinctions, as banks now offer discount brokerage services (Toronto Dominion's Greenline Investor Service) and financial leasing services (Royal Bank's Car Loan Program), securities firms offer chequing services (Midland Doherty's free credit balance chequing privileges), and credit unions and banks offer insurance products (mortgage life insurance).

Here too, the emergence of financial conglomerates such as Power Financial Corporation and Trilon has given government, the industry and the public reason to believe that events may be outpacing existing regulatory regimes. Both these holding companies operate within the context of much larger, closely-held corporate empires. Both now contain all the elements of trust, insurance, securities, and merchant banking services necessary to becoming fully integrated financial institutions. Indeed, when the real estate division of Royal Trust (a Trilon holding) merged with A.E. LePage in October, 1984, the opportunities for synergy were not lost on LePage's President, who noted that "we can refer insurance business to London Life [another Trilon holding] and mortgage business to Royal Trust and we would hope that they would refer real estate business to us".[13] This statement had barely been reported when Trilon acquired the Canadian subsidiary of Fireman's Fund. Already London Life agents have begun selling Royal Trust's registered home ownership savings plans and mutual funds, to take full advantage of the distribution synergies available to Trilon holdings.

Current Initiatives

Clearly the pressure for change and the change itself are already present in the Canadian financial community. The question for government is how to

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10. T. Carrington and D.Hertzberg, "Money at Risk: Financial Institutions are Showing the Strain of a Decade of Turmoil", *Wall Street Journal*, September 5, 1984.
11. "The Golden Plan of American Express", *Business Week*, August 30, 1984, p. 119.
12. Op cit, *Business Week*, August 20, 1984, p. 52.
13. *Globe and Mail*, October 23, 1984.

respond to the changes within this community in a manner which is congruent with the public interest.

As is often the case in any public policy consideration, those pressures and events which shape the regulatory response are not always mutually consistent. As such, it is not surprising that different regulatory regimes within Canada have chosen to respond in differing ways to the questions posed by financial services integration.

The Government of Ontario has given this Task Force the responsibility of examining broad public policy goals for the regulation of the financial industry.

At the same time, within the currently defined parameters, the Ontario Securities Commission has been asked to make a determination regarding the ownership of securities firms.

A rigorous process has already been undertaken by the Ministry of Consumer and Commercial Relations in preparing revisions to the Loan and Trust Corporations Act.[14]

As we proceed with our own task, the Government of Quebec is implementing Bill 75 and is apparently preparing similar changes to its trust company and caisses populaires legislation.

The Provinces of British Columbia, Saskatchewan and Alberta are all currently engaged in studies of the financial services sector and expect to report their respective findings during 1985.

A federal committee of private sector representatives (established by the former Minister of State for Finance, the Honourable Roy MacLaren) has served as a sounding board for the policy options prepared within the federal Department of Finance. It met for the last time in December, 1984. A discussion paper, prepared by Finance to summarize its findings, is scheduled for completion in the spring of 1985. It will undoubtedly give some substance to the intentions of the federal government announced in the November Economic Statement and in the Throne Speech to reform the regulatory framework for financial institutions.

Like many others, we in the Task Force regret that no cohesive national process yet exists to accommodate these various approaches. The establishment of some appropriate national mechanism for their reconciliation should be an objective shared by all governments responsible for the regulation of financial institutions. For our part, we will continue to seek out and co-operate with any and all parties involved in the formulation of policy for this critical sector of the Canadian economy.

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14. R.S.O. 1980 c. 249, as amended.

II. The Role and Structure of Canadian Financial Institutions

Unlike the European and Japanese systems in which market and financial intermediation are highly integrated, the Canadian financial system more closely mirrors its American and British counterparts in segregating market and financial intermediation within capital markets. The most distinctive feature shared by the Canadian, American and British financial systems has been the presence of market intermediation to "facilitate the change in ownership of financial claims".[15] In Canada and the United States, market intermediation has contributed greatly to the development of a viable capital market characterized by a large degree of public participation.

Market intermediation has not traditionally been characterized by the taking or holding of deposits from the community. Rather, those monies transferred to the market intermediary, generally an investment dealer or stock broker, are for the immediate purchase of an ownership claim in another corporate entity. This represents "an attempt on the part of savers ... to maximize the return in yield and services on ... the securities they purchase"[16] and, as such, implies an element of personal risk on the part of the saver. To the extent that market intermediaries themselves hold an inventory of these financial claims (free credit balances, stocks, bonds, equities, etc.), they assume a similar degree of the financial intermediation role.

FINANCIAL SECTOR ASSETS,* THIRD QUARTER 1984 — **Table 1**

Institutions	$ Billion	%
Banks - Schedule A	342.5**	50.9
- Schedule B	24.0	3.6
Life Insurance	77.9	11.6
Trust Companies	57.1	8.5
Local & Central Credit Unions	50.5 est.	7.5
Mortgage Loan Companies	44.1	6.6
Property & Casualty Insurance	16.2	2.4
Financial Corporations	13.7	2.0
Investment Dealers	11.1	1.7
Segregated Funds	9.6	1.4
Investment Funds	8.2	1.2
Other	17.5	2.6
TOTAL	**672.4**	**100.0**

* Excludes Segregated Pension Funds.
** Excludes assets of Mortgage Loan Companies associated with Schedule A Banks.
Sources: Statistics Canada, *Financial Institutions*, 61-006, Third Quarter, 1984. Discussion with staff of the Office of the Inspector General of Banks.

15. E. Neufeld, *The Financial System of Canada*, (Toronto: MacMillan, 1972), pp. 2-3.
16. *Ibid*, p. 26.

The role of all financial institutions is to facilitate the flow of funds from savers to borrowers, that is to provide financial intermediation. However in Canada, as in Britain and the United States, the range and diversity of these intermediaries is a distinctive feature. As the preceding table shows, the distribution of financial sector assets in the Canadian economy serves to illustrate this point.

In addition to those listed, segregated pension funds are an integral part of the Canadian financial scene, contributing some $86 billion[17] in investment capital.

Despite the overwhelming predominance of the chartered banks, it is clear that other financial institutions are still responsible for the allocation of a large proportion of Canadian capital.

Apart from their role as intermediaries, financial institutions are also a significant employer in the Canadian economy, providing almost half a million jobs throughout the country.

Some 198,000 or 43.6 per cent of these jobs are located in Ontario, largely concentrated in the deposit-taking institutions. Banks and trust companies alone account for almost 46 per cent of the financial sector employment in Ontario, reflecting their dominant position in the asset base of the industry. However, the insurance industry contributes 22.5 per cent of the total jobs in Ontario even though it controls only 14 per cent of the assets of the financial services sector. Independent insurance agents and brokers compound this disparity between the proportion of total assets controlled and the number of jobs provided, as noted in the following table.

FINANCIAL SECTOR EMPLOYMENT, AUGUST 1984 **Table 2**

Institutions	Canada ('000)	Ontario ('000)	Ont. emp. structure (%)	Ont/Can (%)
Banks & other deposit-taking establishments	221.8	90.1	45.5	40.6
Other credit agencies	18.6	6.9	3.5	37.1
Security brokers	15.3	8.4	4.2	54.9
Investment & holding companies	33.6	15.5	7.8	46.1
Insurance carriers	91.8	44.6	22.5	48.6
Insurance & real estate agencies	72.9	32.4	16.4	44.4
TOTAL	**454.0**	**197.9**	**100.0**	**43.6**
TOTAL EMPLOYMENT (all industries)	**8857.7**	**3620.1**	**N/A**	**40.9**

Sources: Statistics Canada, *Employment, earnings and hours*, 72-002, August, 1984.

17. Statistics Canada, *Quarterly Estimates of Trusteed Pension Funds*, 74-001, August, 1984.

A review of the financial products and services provided by these intermediaries demonstrates the range of instruments which are deployed to allocate funds. Financial intermediaries provide deposit-taking, mortgage lending, commercial lending, personal lending, estate administration, fiduciary services, leasing, insurance policies, and pension and other services to a diversified client base. The degree of specialization within the intermediation function reflects the divergent demands of households, small and medium-sized businesses, large corporations, and governments. In addition to this institutional servicing of the market, a large number of independent agents (such as insurance brokers, real estate brokers and financial planning consultants) may provide intermediation, between the consumer and a range of financial institutions and products, to achieve price efficiency.

A review of the matrix of financial and market intermediaries and the products they offer indicates that institutions and agents already compete aggressively in the same product lines for the same consumer. Clearly, a high degree of actual and potential overlap already exists between the functions performed by separate intermediaries.

In addition to these similarities, the American, British and Canadian systems are also characterized by varying degrees of self-regulation and government regulation. To the extent that financial and market intermediaries are self-regulating bodies, governments in these jurisdictions exercise a supervisory role. To the extent that they are guided by a legal regulatory framework, governments exercise a regulatory role.

The Distinctive Canadian System

However, three factors render sufficient differences between even these similar regimes that the impromptu deregulation experienced in the United States and the United Kingdom may not be automatically transferable to the Canadian financial services industry. First, the federal and provincial jurisdictions that exist in Canada do not exist in the United States. Second, the Canadian regulatory system is not comparable to that of the United States which, for example, has a national securities act. Third, the predominant players in the Canadian financial system, the chartered banks, have a far greater share of the total assets generated and a more flexible regulatory regime than that of the United States.

The Canadian system traditionally is seen as comprised of four pillars representing the banking, insurance, trust and securities industries. These boundaries, imposed by regulation, have reflected the view that the core function of each sector was most efficiently performed by that sector: commercial lending by banks, insurance underwriting by insurance companies, fiduciary services by trust companies and underwriting and full brokerage by securities firms.

It should be noted that this system of institutional and functional separation is in part the result of the existing regulatory regime and in part the result of comparative advantage exercised in the marketplace. The four pillars do not necessarily represent the most equitable or efficient allocation of functions among the existing institutions, but rather the most traditional allocation of these functions within the Canadian system.

Products and Services Offered by Financial Institutions

FINANCIAL INSTITUTIONS / PRODUCTS AND SERVICES	Credit Unions	Securities Dealers	Provincial Insurance Companies	Federal Insurance Companies	Proposed Canada Savings Banks & Trust Companies Act	Provincial Loan Corporations	Federal Loan Companies	Provincial Trust Companies	Federal Trust Companies	Banks
Deposit Taking	Y	Y	N	N	Y	Y	Y	Y	Y	Y
Chequing Accounts	Y	L	N	N	Y	Y	Y	Y	Y	Y
Commercial Lending	L	N	N	N	L	L	L	L	L	Y
Mortgage on Real Property	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Safety Deposit Boxes	Y	Y	N	N	Y	Y	Y	Y	Y	Y
Safekeeping of Property	Y	Y	N	N	Y	Y	Y	Y	Y	Y
Guaranteed Investment Certificates	N	N	N	N	Y	N	N	Y	Y	N
RRSPs and RHOSPs	Y	L	Y N	Y N	Y	Y	Y	Y	Y	Y
Estate Administration	N	N	N	N	Y	N	N	Y	Y	N
Securities Broking	N	Y	N	N	N	N	N	N	N	L
Issuance of Insurance Policies	N	N	Y	Y	N	N	N	N	N	N
Mutual Funds	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Real Estate Broking	N	N	N	N	Y	Y	Y	Y	Y	N
Travellers Cheques	Y	M	N	N	Y	N	N	Y	Y	Y
Financial Leasing	N	M	L	L	Y	Y	Y	Y	Y	Y
Computer Services	N	Y	Y	Y	L	L	L	L	Y	L
Credit Card Plans	Y	M	N	N	Y	N	N	Y	Y	Y
Portfolio Management	N	Y	Y	Y	Y	L	L	Y	Y	L
Investment Advice	N	Y	Y	Y	Y	Y	Y	Y	Y	N
Factoring	N	M	N	N	N	N	N	N	N	Y
Underwriting	N	Y	N	N	N	N	N	N	N	L
Registrar & Travel Agent	N	N	N	N	Y	N	N	Y	Y	M
Managing Sinking Funds & Acting as Corporate Trustee	N	Y N	N	N	Y	N	N	Y	Y	Y N
Investment Contracts	M	Y	N	N	N	N	N	N	N	M
Administrative Advisory & Management Services	M	Y	N	L	M	M	M	M	M	M
Indexed Security Investment Plan	Y	Y	Y	Y	Y	N	N	Y	Y	Y

Y - Yes N - No M - Maybe L - Limited

Source: Submission to the Ontario Securities Commission by the firm of Campbell, Godfrey and Lewtas, September, 1983.

Other models can and should be contemplated in the course of this debate. Some North American observers have already advanced the concept of a level playing field, in which functional integration is posited. American financial conglomerates suggest a system of functional and institutional integration in which the entire range of financial services is provided by one institution, a 'financial supermarket' of sorts. Canadian and American markets already have experimented with a model of institutional separation with functional integration. In these 'networking' arrangements, institutions engage in contracts to distribute products created by another financial services entity. Further, the emergence of financial conglomerates within Canada indicates that institutional integration, or 'common ownership', may be coupled with functional separation or integration. Trilon may serve as an example of the potential of commonly-held financial services entities networking to distribute a broader range of financial products while operating within discrete functional compartments.

These approaches are not meant to form an exhaustive list but merely to suggest that the discussion of financial services regulation should take place within a broader framework than that of four pillars. We encourage the industry and the public to advance any model which they believe best serves the efficient allocation of resources throughout the economy.

III. The Role of Financial Institutions

The role of any financial system is to ensure the most efficient transfer of funds from savers to users of capital. Whether this task is accomplished by financial or market intermediation, the allocation of these savings for productive purposes is critical to the functioning of the economy as a whole. A failure to perform that task can generate a ripple effect in the non-financial sectors which are major consumers of financial and market intermediation services.

The extent to which financial and market intermediaries engage in transactions amongst themselves increases the importance of solvency and efficiency as primary goals for the system. The experience of the Great Depression and more recently the association of the collapse of Penn Square with Continental Illinois illustrate how easily the failure of one financial institution can trigger runs on its competitors.

Deposit-taking institutions are a major vehicle through which the central bank implements monetary policy. As such, the stability and efficiency of the financial system become integral to the pursuit of broader macroeconomic objectives.

In addition, the deposit-taking function assigned to financial intermediaries implies a quasi-fiduciary relationship to their depositors. As the collectors and repositories of the public's savings, deposit-taking institutions have an important additional responsibility to maintain the public's confidence.

Indeed, it has been noted that the *sine qua non* of the financial system is confidence. In a very real sense, the commodity traded by financial institutions is an intangible asset -- the reputation and expertise of the institution and the confidence of depositors which flows from that. The popular designation of financial services companies as institutions rather than firms suggests that our culture itself defines these intermediaries as a special case.

Unlike many firms within the non-financial sector, shareholder funds may represent only a minor part (perhaps only five per cent) of the funds potentially at risk in a financial institution. As a general rule, the liabilities of these institutions are more liquid than their assets in varying degrees. In order to maintain the solvency of the institutions, depositors must have a greater degree of confidence in the ability of institutions to repay deposits on demand than the evidence might suggest. Confidence in this instance becomes the *primum mobile* of the capital market.

Deposit Insurance and Public Expectations

To the extent that the traditional market test of failure is either missing or considered undesirable, financial institutions are rendered an even more special case. The existence of deposit insurance compounds this case by effectively preventing losses to the depositors and often to other creditors.

Within Ontario, deposits held in any one bank, trust company or credit union are insured up to a level of $60,000. To the extent that Ontario depositors allocate the risk by distributing their deposits in lots of $60,000 per institution, none of their monies will be at risk. The potential for 'moral hazard' is obviously great, as consumers may become indifferent to the prudent management of any institution.

In addition, the existence of deposit insurance effectively lowers the barriers to entry to deposit-taking intermediaries. To the extent that consumers may be virtually indifferent as to where they place their deposits, institutions with less proven records of financial prudence may still attract depositors by offering imprudent rates of interest. The special nature of financial institutions, regardless of whether they perform the deposit-taking function, is further compounded by the public expectation that government will ensure solvency.

In a public opinion survey of Ontario respondents conducted for the Task Force (see Appendix B), we found confirmation that the public fully expects that government will not allow financial institutions to fail, whether or not they are covered by deposit insurance. Over two-thirds of respondents felt that, in the event of failure, they would receive $60,000 or more from the deposit insurance mechanism. Furthermore, and bearing out what has in fact transpired in the wake of recent failures, one third of those surveyed felt they would receive one hundred per cent of their deposits back, even if they exceeded $60,000.

The public's concern extended beyond their own deposit-taking institutions to those in which they were not depositors. Over 80 per cent of respondents would be "very" or "somewhat concerned" if a financial institution in which they had not deposited money were to go bankrupt.

The government itself has made the case for special treatment of financial institutions by the process of retroactively raising the insured limit from $20,000 to $60,000 in 1982 and by the compensation of some depositors for losses in excess of the limit. With these gestures, it effectively implied that the risk of failure was not to be borne by the depositors or determined by the marketplace.

This analysis might suggest that only deposit-taking institutions should be treated as a special case by regulators. Yet to the extent that all financial intermediaries now offer instruments which are substitutes for deposits and many market intermediaries are now providing free credit balances with chequing privileges, deposit-taking may be said to be a function of all financial institutions.

Indeed, the existence of deposit insurance seems to substantiate the tacit but widely-held assumption that no financial institution can be allowed to fail in the Canadian context. While it is difficult to envisage a scenario in which a major market intermediary would go bankrupt (as opposed to simply merging with another firm), such an event would generate a similar degree of concern amongst governments and the public at large.

Fundamental Goals

From our discussions with the industry and various parties, two primary goals emerge for the Canadian financial system: solvency and an efficient capital market. We do not see these fundamental concerns existing in isolation, although some regulatory and market mechanisms may clearly serve the goal of solvency better than that of an efficient market (and vice versa). Without the confidence engendered by relatively stable, solvent financial institutions, the health of capital markets will be eroded. Conversely, a financial system rigidly controlled for solvency may provide neither the range of instruments nor the flexibility necessary for optimum market efficiency. The goal of public policy in this critical sector must be to balance these two considerations.

IV. Developing the Framework for Public Debate

This leads us to some difficult but critical questions, on which we invite public debate.

If governments must prevent failures to meet public expectations and public policy goals, should they also be armed to ensure solvency through stringent regulation?

If solvency must be guaranteed, what is the appropriate relationship between the market and regulators?

If solvency is guaranteed, what accommodation can be found in the regulatory framework to ensure the optimum allocation of capital?

Should those financial institutions which provide an essential service be regarded as a form of public utility? And if so, to what extent should the market be given freedom to operate?

If solvency is not to be guaranteed, to what extent and in what specific instances can the financial system tolerate failures and still effectively allocate capital?

Within the context of these broader questions remain specific questions suggested by the discussions we have already had with financial institutions and various parties. We have elicited a number of arguments which are discussed in the introductions to the questions that follow. In continuing to pursue these issues, we would appreciate receiving any information not yet offered to the Task Force which gives substance to those arguments and permits reasoned responses to the questions.

(i) Conflict of Interest

Conflict of interest is an issue which may arise in many different situations with varying degrees of significance. In the context of the financial services industry, abuses of conflict of interest are of particular concern because of their potential effects on public confidence in the system and on the solvency of financial institutions. Depending on the type of conflict, the suggested regulatory approaches range from legislative provisions which prevent the conflicts from arising to statutory prohibitions against acting in a situation where there may be conflicts.

The emergence of financial conglomerates has raised the issue of how the competing interests of a financial institution and another related corporation may be resolved by a common owner. One view favours preventing this type of conflict through statutory controls on ownership while another view prefers to limit the dealings between related businesses.

In order to prevent the conflicts which might occur where there is common ownership of a financial institution and a commercial business, or where there is related ownership of two different types of financial institutions, should restrictions on ownership be enacted? Should the commercial sector be permitted to have controlling interests in all financial institutions?

Would it be preferable to allow unrestricted cross-ownership but prevent financial institutions from dealing with companies related to them? If so, to what

extent, if any, should self-dealing in a financial institution be permitted? What safeguards, if any, should be required? Should there be any limitations on the amount of funds of one financial institution which may be invested in the securities of an affiliate? To what extent might a stringent prohibition against self-dealing permit a much more relaxed regulatory approach to the ownership of financial institutions?

Recent discussions about deregulation have also raised concerns about the conflicts that might occur between the different functions or activities carried on within one firm if the traditional barriers which prevent each type of financial institution from encroaching on the core function of the others are removed. If the separation of functions is no longer enforced along institutional lines, and one company can provide, for example, both an underwriting and a commercial lending function, should potential conflicts be dealt with by means of 'Chinese Walls' so that information made available to the firm for one purpose, such as a loan transaction, may not be used by the firm for its investment purposes?

Conflicts may arise within an institution between its own interests and those of its directors or between the competing interests of different customers. One approach to problems at this level lies in stronger boards of directors with more clearly defined responsibilities and more stringent disclosure requirements. In the case of interlocking directorships, would conflict of interest problems be better addressed by imposing additional restrictions on directors of financial institutions who also sit on the boards of other corporations?

How would the interests of consumers be affected by one-stop financial shopping and the conflicts to which it might give rise?

(ii) Solvency

Protection against the insolvency of financial institutions may be provided by statutory reporting and disclosure requirements and by a system of deposit insurance.

Deposit insurance premiums are paid by financial institutions according to the amount of deposits they hold. Some have argued that this type of system penalizes the larger institutions that bear the heaviest burden of cost and also penalizes the solid well-run institutions that must cover the losses incurred by more poorly-managed or riskier institutions. Furthermore, in some recent cases of insolvency in financial institutions, deposit insurance has been extended to losses beyond the statutory limit of $60,000. This practice is questioned by those who argue that depositors should bear some of the responsibility for their choice of financial institutions, and that large depositors in particular should assume some of the risk of loss on their investments.

Is there a more equitable way to allocate the cost of deposit insurance among financial institutions?

Has the consumer, as a result of deposit insurance and other protections afforded by the state, come to rely on government to safeguard the solvency of financial institutions? Is the consumer prepared to accept the risk of any such institutions failing? If so, is the consumer prepared to accept a greater degree of responsibility in the acquisition of financial services than at present?

To the extent that all financial institutions perform the financial intermediation role, should their clients be covered by some form of deposit insurance?

The securities industry funds and administers its own National Contingency Fund to compensate its clients for any potential insolvency amongst its members. A similar type of fund is currently under consideration by the insurance industry.

Are there any particular features of these two models which could be applicable to the current system of deposit insurance?

Does either of these models imply an adequate level of protection for the clients of either securities or insurance firms?

Would more stringent public disclosure and reporting requirements assist in ensuring protection against insolvencies by better informing the public as to the operation of such firms? If so, what changes should be introduced?

(iii) Capital Market

One of the more important repercussions arising out of any change to the regulatory structure of financial institutions will be the effect of that change on the Canadian capital market. One viewpoint is that the diversity and strength of the domestic capital market has been the result of the policy of keeping the four pillars separate. Supporting this stance is the experience of certain European countries, such as West Germany, where historical circumstances have resulted in a restricted and weaker domestic capital market. The corollary to this viewpoint is that, regardless of the regulatory structure, the demand for particular financial products will be satisfied by the market.

The question of whether there is, or will be, sufficient funds to service the capital needs of Canada has also been raised. One line of argument has it that sufficient capital cannot be raised in Canada, and therefore the market should have a greater infusion of foreign funds. Another viewpoint is that it is not a question of the actual volume of funds, rather it is a question of whether there can be ready access to funds either in Canada or internationally, and because Canadians can have easy access to all types of capital in the world market, there is no problem.

By changing the regulatory structure, does the risk arise that the Canadian capital market can be either detrimentally or beneficially affected?

Is the capital market satisfying the needs of the Canadian public, or do some sectors, such as small business, find difficulty in gaining access to funds? What changes in the structure, organization and regulation of financial institutions can rectify such difficulties?

Would the abandonment of the four-pillar system lead to a further increase in the institutional management of investments, and a decrease in the participation of the private investor in the capital market? If so, would there be any disadvantage in lesser participation by private investors? If the four pillars were abandoned, what savings if any would be passed along to the users of financial services?

(iv) Concentration

One concern about relaxing the barriers between the four pillars is that it would result in too much concentration of activity. Some point out that, with banks owning over 50 per cent of the assets of the financial sector, the industry is already too concentrated. Concern has also been expressed that the financial sector could become increasingly dominated by a few families should the main pillars not be maintained. One disadvantage of such concentration would be the decline of competition and specialist services which would lead to less innovation in the financial industry and less service to the consumer.

One of the advantages of a concentrated market is that the resulting economies of scale could result in cheaper products being offered to the consumer. Another advantage is that larger institutions would be better equipped to compete in the international market. Banks, with a large percentage of their assets in foreign currencies, are an example of larger institutions successfully competing internationally.

The issue of product concentration has been raised for discussion as well. Under the current regulatory scheme, certain products are effectively monopolized by one group of institutions. In view of the volatile marketplace, which can quickly shift consumer demand from one group of products to another, some institutions feel that their current product range results in an asset base which is not strong enough to withstand major economic change.

If the four-pillar system were abandoned, would larger institutions such as the banks dominate the system?

Would the competition for new products become less intense in a market dominated by a few large institutions?

Would there be a loss in service to consumers in a more concentrated financial market? Which members of the financial industry would be most susceptible to takeovers should the barriers between financial sectors be reduced? What would be the effect of such an increase in concentration?

What types of financial products should be offered by all financial institutions or by a wider range of financial institutions?

Suggestions have been made that an abandonment of the four-pillar system would result in financial institutions becoming the dominant factors in the sale of life and general insurance, with the independent agents and brokers playing a much smaller role. Is this likely to happen? If so, will it result in a more or less efficient system of distribution in terms of service and cost?

(v) Regulatory Approaches

Regulation of financial services in Canada has been built upon an institutional framework. When considering deregulation several options emerge. As an alternative to the traditional approach of regulating by type of financial institution, one view is that it might be more appropriate to regulate according to the service or product offered, or by some other approach which combines both institutional and functional aspects.

Some members of the financial community favour the trend towards more self-regulation within the industry and less involvement by government. It has also been said that where there is less regulation by government there must be more supervision and where there is less supervision there must be more regulation.

Keeping in mind the fundamental role of government in ensuring public confidence in the financial system, what type of regulatory system best enhances solvency, the quality of service, and the health of our capital markets?

How are the economic well-being and public interests of Canada served by maintaining the traditional separation of financial services? Should the four-pillar concept be maintained, totally or substantially, with some further duplication of services in selected and limited areas, or is there a different basis upon which financial services should be delivered and regulated?

Conglomerates or financial holding companies under the current system may be affected by a mix of regulatory mechanisms imposed by different jurisdictions on different types of financial institutions, and involving largely unregulated businesses. Does this type of extended financial entity require a new kind of regulatory scheme?

(vi) Jurisdiction

Responsibility for financial institutions rests to some extent with both the federal and provincial levels of government. This divided and, in some cases, shared jurisdiction has resulted in a number of systems of regulation which sometimes afford different rights to and impose differing requirements on the same financial institution. At best, the overlapping of jurisdictions can be said to promote sensitivity and experimentation at some cost in confusion and duplication. At worst, the possibility of incompatible legislation may make the system unworkable. Further, interjurisdictional differences appear to be widening rather than narrowing.

What is the best way to achieve co-operation and co-ordination among the various jurisdictions currently regulating financial institutions in Canada?

What responsibility should Ontario have for regulating institutions operating in Ontario which are incorporated elsewhere?

Should Ontario require any such extra-provincial corporation to conform in all of its operations to the same standards which Ontario demands of its own institutions? Could such an approach be effectively implemented and enforced?

When a financial institution is subject to regulation by more than one government, should there be common inspection and supervision of its records through a single regulatory agency such as the CDIC, the federal Superintendent of Insurance or a new agency which might be created for that purpose?

Would there be a benefit, as some have suggested, to having the entire financial services industry regulated by the federal government, or is the current system more responsive to regional needs and differences?

Should foreign-owned financial institutions have the same rights and powers to carry on business in Canada as domestically-owned corporations?

(vii) Internationalization

With the exception of the insurance industry, the Canadian financial sector has traditionally had a low degree of foreign participation. By opening up the domestic industry to foreign competition, it has been suggested that a more competitive and diverse market could result. An additional advantage could be the increased access of Canadian firms to international investments through reciprocal trade arrangements.

However, if greater access to the domestic market were granted to foreign firms, those firms might be less committed to the country's development and less sensitive to its regional needs.

A further problem revolves around the ability of regulators to monitor effectively international firms and to assess their solvency positions routinely.

Have current restrictions on the ownership of some of our financial institutions impeded the growth of our financial institutions in other countries?

Do the existing regulations protect the smaller and less competitive firms at the expense of not having more firms which are large enough to compete effectively in the international marketplace?

In which financial activities are the international opportunities greatest for Canadian firms? What type of reciprocal arrangements should be made to allow domestic firms to penetrate such markets?

Can an efficient regulatory system be designed to supervise adequately international firms operating in the Canadian market?

(viii) Ownership

Control over ownership of financial institutions is one of the approaches which may be taken in dealing with many of the policy issues in the financial services industry. Examples which currently exist are restrictions on certain institutions owning other institutions, limits on the number of shares of a financial institution which any one individual or corporation may own, and limits on the extent of allowable foreign ownership. At the other end of the range of regulatory options is an approach which would permit unrestricted ownership.

In considering the policy aspects of downstream and upstream activities of financial institutions, should ownership of a financial institution by another type of financial corporation be permitted? Should there be restrictions, in turn, on the nature of the businesses which financial institutions may own?

Should any or all financial institutions be required to be widely held?

Is a greater degree of foreign ownership in the financial industry desirable? If so, what types of investment should be allowed? Should there be any limitation on the amount of voting capital which a foreigner may acquire?

Should the same restrictions on ownership apply to all types of financial institutions or are there advantages in treating trust companies and banks, for example, in different ways? If the four-pillar system were abandoned, would it be feasible to have some participants in the financial industry subject to ownership controls, either foreign or domestic, while their competitors were not subject to such controls?

(ix) Consumer Demand

The consumers of financial services are found in the household and business sectors of the economy.

With respect to the millions of individuals who comprise the household sector, much has been made recently of the convenience that would result from the advantages of so-called one-stop financial shopping. The appeal of one-stop shopping is that it might well reduce what economists call the transaction costs i.e. the inconvenience associated with doing business with a number of different financial institutions. On the other hand, one-stop financial shopping raises a number of concerns whose content is equally economic in nature.

To what extent does the specialization of advice inherent in distinct financial institutions enhance the quality of the services already provided to consumers of financial services? Does the range of services provided by financial institutions already reach the outer limits of the expertise that their employees or agents can be reasonably expected to possess? To what extent would one-stop financial shopping, if it bypassed independent brokers of insurance and other services, circumvent an important stimulus to competition in the financial services industry? Would it introduce inherent conflicts of interest in those competing for consumer funds? Does the special intermediation provided by insurance brokers not rest upon the same economic rationale that attaches to financial intermediation generally? Going beyond purely economic concerns, should the implications of one-stop financial shopping for individual privacy be a matter of concern for public policy?

As for the business sector of the economy, there are considerations which are of particular concern to small and medium-sized enterprises. To what extent, if at all, is the alleged shortage of equity financing for such enterprises likely to be affected by greater or lesser degrees of financial service integration? To what extent are firms whose small size does not permit in-house expertise reliant on independent brokers and agents for the efficient procurement of insurance, pension, and other financial services?

(x) Market Outlook

A number of factors can affect the major product lines of financial institutions. Inflation rates, government deficits, demographic changes, and the recent volatility of interest rates represent some of the factors affecting the demand for certain financial instruments in the shorter and longer runs. Those wanting to market a greater range of products cite factors such as these to justify their need to diversify and remain viable. By not being allowed to diversify, it is argued, their product lines will become redundant. Others point out that, within the existing framework, institutions have been able to design products to meet the demands of the day and that such diversification is not necessary.

Which product lines can be expected to be affected by long-term changes, and what effect will such changes have on the competitiveness of specific institutions?

Are there any future demands on the horizon which cannot be adequately serviced under the existing regulatory structure?

(xi) Technology

It has been suggested that the driving force for changes to the future structure of the financial industry will be technology. As a result the geographic boundaries of business will expand and will facilitate a greater international flow of funds, the volume and quality of information will lead to better decision-making, and the range of products provided by institutions can be expanded. Others play down the revolutionary effect of technology by viewing it more as a management tool enabling firms to offer a more efficient service to the consumer.

In view of the perceived capabilities of developing technologies, will their economies of scale and their efficiencies become so great that they will force inter-industry barriers to break down? What merit attaches to the view that technology expands the geographical boundaries of the markets for individual financial products rather than dictates an integrated delivery of different financial services?

In view of the volume of information that could become available to the decision-maker, will financial markets become shorter-term as investment managers develop the capacity to move money rapidly from one investment to another? Are there any problems associated with such a trend?

V. Recommendations

The terms of reference given to this Task Force stipulated that its interim report include "recommendations concerning any issues that the Task Force believes the government might want to consider immediately" (see Appendix A). In this regard, four issues have emerged from our preliminary process of consultation which, in our view, call for recommendations at this time. These involve: (i) revisions to the conflict of interest provisions in the Loan and Trust Corporations Act; (ii) Ontario's short-term regulatory approach to Quebec-based insurance companies; (iii) current government policy towards credit unions; and (iv) intergovernmental consultation on the regulation of financial institutions.

(i) Revisions to the Conflict of Interest Provisions of the Loan and Trust Corporations Act

The taking possession and control of three trust companies by the Ontario Government in 1983 graphically demonstrated the need for amendments to the Province's Loan and Trust Corporations Act. Such amendments have already been the subject of extensive industry and public consultation. In our view the amendments proposed in the White Paper and revised in the Standing Committee on Justice pertaining to conflict of interest and self-dealing must be strengthened to prevent potential abuse.

A fundamental policy question in formulating the new legislation is whether persons in a position to control or influence the management of trust companies are to be permitted to enter into transactions with such companies. In considering this problem it seems worthwhile to distinguish between two types of transactions:

(a) transactions involving purchases and sales of products and services readily available from suppliers where the market value may be ascertained with reasonable precision, such as the provision of services (for example, computer services) by one interlocking company to another;

(b) transactions where the market value of the products and services acquired is not readily available and where the prices and rates for such products and services will always be a matter of some judgment, such as transactions involving substantial loans, securities, sales and purchases of real property.

As suggested in preceding sections, the business of marshalling the savings of Canadians through deposit-taking institutions must be conducted in a manner that inspires confidence in the system. Governments have considered this to be critical to the economy and have regulated such activities closely for many years. The advent of deposit insurance is a further manifestation of this concern. As a result we find ourselves in the curious position where the state cannot allow a significant failure, involving the repudiation of liabilities, to occur among financial institutions. Accordingly, the state in the public interest must ensure that these institutions are operated so that they command confidence and can discharge their obligations to their customers. In our opinion this objective requires more than the avoidance of fraud. Public confidence will only be

maintained if Canadians are satisfied that the institutions entrusted with their savings are adhering to the highest standards of integrity.

In the past the reputation and solvency of Canadian financial institutions often has been jeopardized by self-dealing, that is by transactions carried out in the interests of owning or controlling persons to the detriment of the institutions themselves. Since 1964, over twenty-five cases have occurred in which Canadian institutions were involved in related party transactions which led to insolvency. The most recent experience in Ontario indicates that existing regulations governing conflict of interest and self-dealing have not been adequate to safeguard the public interest.

The alternatives most frequently suggested to address these problems are: (i) a much heavier degree of responsibility on directors coupled with greater powers vested in the regulator, with the onus being placed on the corporation and its control block to justify any self-dealing; (ii) an absolute, or virtually absolute, prohibition against self-dealing by those having any significant degree of influence over a company; (iii) rules prohibiting any one person or associated group of persons from holding sufficient shares to exercise any substantial degree of influence over such companies.

As many trust companies are already closely held, we do not consider that the solution lies in requiring a divestiture of such control. If such an approach were to be effective as an immediate solution to self-dealing it would require immediate divestiture. Such retroactive legislation would, in our view, be undesirable.

However, given the importance of marshalling and effectively utilizing the savings of Canadians, it would not be unreasonable to require that the persons who have sought control of financial institutions refrain from self-dealing, that is from dealing with institutions that they control where their personal interests may conflict or appear to conflict with those of the institution. A transaction undertaken in such circumstances places management in an almost impossible position since a manager will have great difficulty in negotiating as vigorously with a controlling shareholder responsible for the manager's future as he or she would with a complete stranger.

The problem with allowing a court or a regulator to review such a transaction, once approved by a board of directors, is that it will have difficulty in many cases in ascertaining all of the attendant circumstances relating to the transaction and the alternatives available. The parties with the most information about the transaction, namely the controlling shareholders, management and the directors, all will be interested in defending it. Accordingly, with the best will in the world, it will be difficult for regulators to judge the validity of such a transaction. Despite the onus on the controlling shareholder and the corporation to justify such an activity, any person attacking the transaction will be at a disadvantage without the detailed knowledge peculiar to the corporation and its controlling shareholder. Highly complex transactions such as those which have led to financial failures in the past are not easily assessed by outsiders, even those possessed of expert knowledge. For example, the disputes as to the value of real property for expropriation and assessment purposes are compelling evidence of the difficulty of determining the market value of anything that is not traded in a public market on a regular basis. The differences in valuations made by competent and reputable valuators demonstrate that the concept of market value

is an elusive one in the absence of arm's length transactions between vendors and purchasers each intent on advancing their individual interests.

A board of directors, deprived of the support of management which has as its sole interest the advancement of the corporation's well-being, will have enormous difficulty in evaluating transactions. Making directors more accountable will be of use only in cases of the clearest abuse, as courts have been very loath to second-guess directors on questions of business judgment. Furthermore, the whole history of minority shareholder rights litigation in Canada shows that the costs involved, coupled with the time required to deal with complex litigation, makes this an uncertain remedy.

In short, the balance of convenience lies with prohibitions which will relieve management, directors and regulators of the necessity to determine an appropriate price for transactions involving controlling shareholders where a market price cannot be readily ascertained. The interests of the state in the efficient operation of the financial system require that those involved with its day-to-day management do not serve two masters. The interests of the public in the probity of its financial institutions should be preferred over any advantage which the shareholders may gain by doing business with corporations which they control or significantly influence.

There is no doubt that an outright prohibition against all transactions by a trust company in which the interests of the controlling or influential shareholders are involved could create some difficulties. The holdings of such shareholders may extend so widely throughout the economy that the management of the investment funds of some trust companies could be significantly restricted in the choice of investment. If the trend towards financial conglomeration by groups with significant interests in the non-financial sector continues, the choice of investment by trust companies under the control of such groups could become even more limited, with adverse consequences to the investors relying on these trust companies for services.

The problem is to distinguish between those transactions where the investing public are best served by an absolute prohibition and those where some exceptions would be in the public interest. An appropriate distinction is between transactions in publicly-traded securities, products or services that may be judged on the basis of contemporaneous arm's length transactions, and transactions that cannot be so judged. Where market benchmarks are not readily available, a trust company should not be permitted to enter into transactions involving the interests of its controlling or influential shareholders.

Under such a regime, investments in the securities of companies associated with the controlling interest of a trust company would be permitted if acquired at a publicly-traded price, established on a recognized stock exchange under normal trading conditions, and in limited quantities. Well-managed investment funds almost invariably have clearly established limits as to the proportion of a fund which may be prudently invested in the securities of a particular company and a particular industry. Such rules should be established by legislation in respect of any exceptions to the absolute prohibition of transactions involving the interests of a controlling or influential shareholder. Conversely, a trust company would not be permitted to engage in real property transactions with controlling and influential shareholders because the desirability of such investments must

always be a matter of opinion that cannot be adequately or easily tested against the benchmark of independent, contemporaneous transactions.

In the interests of brevity these comments have been directed largely towards transactions in securities and real property. Nevertheless we think the principle should be applicable to all transactions in which the interests of a controlling or influential shareholder may differ from those of the corporation. The only guide in such cases which offers any real assurance that the interests of the corporation will come first is the experience provided by independently conducted transactions where value for a homogeneous product or service is determined as a result of negotiations by adverse interests. Accordingly, *we recommend that*

> **Revisions to the Loan and Trust Corporations Act should include:**
>
> (i) **A prohibition against self-dealing in real property;**
>
> (ii) **A prohibition against self-dealing in all other transactions except where a generally prevailing market price for homogeneous products, investments or services, based upon independent contemporaneous transactions, is readily available;**
>
> (iii) **A limitation (to be established by regulations developed by reference to the practices adopted by independent investors) on the amount of investment which a loan or trust company may hold in the securities of any company in a position to exercise influence over it or associated directly or indirectly with such a company;**
>
> (iv) **A limitation on the amount of any loan which a loan or trust company may make to any company in a position to exercise influence over it or associated directly or indirectly with such a company so that a very limited proportion of the assets of the trust company could be so loaned.**

Similar considerations lead us to believe that the Loan and Trust Corporations Act should be further strengthened by altering the rules applicable to directors having a conflict of interest. In our opinion such directors should not only be required to refrain from voting, but should not be permitted to participate or be present when matters involving conflicts are discussed by directors. Accordingly, *we recommend that:*

> **The Loan and Trust Corporations Act should have a requirement that directors having a conflict of interest on any matter shall not be present when such a matter is being discussed or voted upon by the directors.**

In Section IV of this report we raised a number of questions pertaining to conflict of interest and ownership. Clearly, the current state of our thinking attaches high priority to the prohibition against self-dealing amongst all financial institutions. We look upon the process of open consultation on which we are about

to embark as an opportunity to receive further submissions on this issue. We believe that the prohibition against self-dealing, not only in the domain of loan and trust companies but as it might be applied to other financial institutions, is grounded in the twin concerns of solvency and healthy capital markets. The road to insolvency has all too often been paved with self-dealing, which by definition violates the principle that arm's length transactions are essential to market efficiency. We solicit informed opinion on the extent to which a stringent approach to self-dealing could permit a more relaxed approach to ownership restrictions.

(ii) Ontario's Short-term Regulatory Approach to Quebec-based Insurance Companies

The Task Force has begun a preliminary examination of the licensing of Quebec-based insurance companies to operate within the Province of Ontario.

Concerns first arose in this area with the proclamation of Bill 75 in the Province of Quebec. As mentioned previously, this statute allows a substantial expansion in the activities traditionally open to insurance companies. Within its own organization and without regulatory approval, an insurance company can, aside from its traditional functions, administer its insurance and annuity premiums as a trustee, administer the funds of tax deferred savings plans such as RRSPs and RHOSPs as a trustee, provide financing for purchasers of insurance and annuity premiums, offer custodial and safekeeping services, engage in leasing and real estate management, and market the products of other financial institutions.

In addition, but with the approval in each instance of the Minister of Finance, insurance firms may engage in deposit-taking, underwriting of government and corporate securities, real estate brokerages, foreign exchange, transfer agent and registrar activities and fully-fledged fiduciary and trustee services. When insurance companies want to engage in non-financial activities a special subsidiary must be established. No regulatory approval of non-financial activities is required, and investment in subsidiaries is subject to ceilings, expressed only as percentages of the insurance company's assets.

Clearly Bill 75 greatly enlarges the potential sphere of operation of Quebec life insurance companies. The actual extent and the pace of their expansion is yet to be determined. Ill-advised or untimely developments, particularly if they involve self-dealing, might pose problems of insolvency that cannot be ignored by the jurisdictions in which Quebec companies do business. In particular, any potential insolvency amongst Quebec insurance companies with clients resident in Ontario could expose the Government of Ontario to political and economic costs.

Until now, Canada has enjoyed a reasonably uniform set of regulatory standards governing financial institutions. Very real efforts have been made in the past by regulators and legislators at all levels of government to ensure that a balkanization of our capital markets does not have a negative impact upon their health and efficiency. Similar efforts have been made to ensure that adequate standards of protection exist in these regulatory regimes. As such, it has not been necessary to scrutinize the activities of extra-provincially chartered companies to ensure that the Ontario public is protected.

The Government of Ontario is considering an approach whereby financial institutions, in whatever jurisdiction they have been incorporated, must conduct their operations under Ontario requirements and law if they wish to operate in Ontario. This so-called 'equals approach' poses a genuine dilemma. On the one hand, it could lead to a further balkanization of financial regulatory regimes. On the other hand, it may be the only adequate means of ensuring the protection of the Ontario public.

So as to continue to do business in Ontario, Quebec insurance companies, like their counterparts incorporated in other jurisdictions, require an annual licence issued by the Ontario Ministry of Consumer and Commercial Relations. We deem it to be in the interest of interjurisdictional harmony and of the Canadian common market for financial products that these licences continue to be renewed for the time being. But it is also in the interest of both the Ontario public and government to have the means of keeping abreast of the corporate strategies that Quebec insurance companies may develop under their new legislation. For our part, we need time to assess further both the implications of Bill 75 and the potential merits and demerits of the adoption of an equals approach by Ontario. In light of these considerations, *we recommend that*

> **The Government of Ontario request 120 days notice in writing from any insurance company wishing to pursue corporate activities which deviate from those allowed by the Insurance Act of Ontario.**

(iii) Current Government Policy Towards Credit Unions

The credit union movement has been an integral part of the financial community since the early 1900s. It has grown to the point that it has a membership approaching two million individuals in over 900 credit unions, with assets totalling some $6 billion.

Credit unions are a unique institution in that their shareholders are also their borrowers and depositors. Because their very structure means that their organization is close to its membership, credit unions have had an impressive record of introducing and even pioneering many financial innovations. As what is sometimes called the fifth pillar of the financial industry, credit unions are a highly significant institution.

Like other financial institutions, credit unions have recently had to face the unprecedented volatility of high interest rates. As a result, a number of credit unions have encountered so severe a mismatch of deposits with investments that they have experienced difficulty recovering from their deficit positions.

Procedures to improve the position of a number of credit unions have been established to resolve some of the problems affecting the industry. Basically, the aim of these actions is to reinforce sound business principles and upgrade management practices throughout the credit union movement.

As a result, a number of adjustments are taking place throughout the movement. The various leagues have established or are in the process of establishing stabilization funds, reserve requirements are being increased, and the supervision of the credit unions has been realigned.

After considerable discussion with both credit union representatives and the relevant regulatory authorities, we pronounce ourselves in full support of the actions that are taking place to consolidate the position of the credit unions. We are likewise satisfied that these actions will lead to a strengthening of the traditional role of the movement. We have also concluded, however, that the timing of our mandate is such that it would be premature for us to assess the progress of these initiatives. Such an assessment would lack an adequate factual base and, worse still, might encroach on the actions that are currently underway. In view of the appropriate actions currently being taken, *we recommend that*

> **The initiatives now being pursued to strengthen the operation of the credit union movement be given a further period in which to take effect.**

This recommendation is not intended to discourage submissions to the Task Force from the credit union movement. Rather it conveys our position that representatives of the credit union movement should discuss the potential impact of changes to the regulation of other financial institutions on credit unions, instead of exploring alternative means of regulating their own affairs. The systematic exploration of such alternatives should await a time, perhaps five years, when current initiatives will have had the opportunity to attain their desired results.

(iv) Intergovernmental Consultation on the Regulation of Financial Institutions

Believing as we do that the solvency of all financial institutions in Canada and the efficiency of our capital markets are primary goals of our financial system, the need for federal-provincial and interprovincial harmony becomes of paramount importance.

We have already catalogued the various studies and legislative reforms currently underway. In particular, we have already made observations concerning the potentially far-reaching effects of legislative initiatives already taken in Quebec, noted the forthcoming completion of a major federal document on financial insitutions, and broached the possible merits and demerits of an Ontario policy which would take an equals approach to the regulation of all financial institutions doing business in this province. It is very apparent that there are federal-provincial and interprovincial implications of alternative courses of action, yet the only forum of intergovernmental consultation which considers financial institutions currently operates at the level of officials only. We deem it urgent that initiatives be taken at this time which will generate an ongoing process of consultation at the level of the cabinet ministers, both federal and provincial, who bear responsibility for policy on financial institutions. Accordingly, *we recommend that*

> **The Government of Ontario should press for an immediate meeting of the relevant federal or provincial ministers to determine the most appropriate vehicle for achieving harmony amongst policies and regulatory practices governing financial institutions.**

VI. Process of Open Consultation

We have been asked to identify in this interim report our proposed course of action for engaging in a process of open consultation with the financial community, its client groups and the public during the course of our future work. Since our appointment in June, we have engaged in an informal process of consultation which has served to identify the key issues outlined in this report. In view of the rapid movement of events around us and the accelerating pressures for change on the financial system, we believe it is crucial that we complete our final report as soon as possible if our recommendations are to be effective and relevant.

A suitable forum for open consultation must therefore make us accessible while simultaneously enabling us to proceed expeditiously. In light of these twin requirements, we propose the following course of action.

(1) This interim report will be circulated to the public before the end of January 1985.

(2) Interested parties will be invited through public announcements to make written submissions to the Task Force before March 15, 1985 in response to the questions and concerns raised in this report.

(3) Where necessary, the Task Force, before April 15, may request that further written information or clarification be submitted by May 1st.

(4) A schedule for the public hearings will be arranged and released. It is anticipated that the hearings, which will commence in mid-May, will be completed by the beginning of July.

(5) Only those parties who have made written submissions to the Task Force and who wish to appear will be scheduled for a hearing. Hearings will primarily provide an opportunity to answer questions arising from the written submissions rather than involve oral presentations.

(6) Members of the press and the public will be welcome to attend and observe the hearings.

(7) During the hearings legal counsel will not be required as only the Task Force members will question the parties making presentations.

Following this process of open consultation, the Task Force will undertake to complete and deliver its final report as early as possible in the fall of 1985.

The Task Force readily acknowledges that there are certain important issues raised in our mandate which can be more adequately addressed by another body. In particular, the impact of technology upon the financial services labour market is currently being addressed by the Boggs-White Task Force on Employment and New Technology. We recognize the critical importance of this issue given that the financial industry is a major employer in Ontario. However, we consider that it warrants sustained attention regardless of any changes in the future regulatory environment. As such, this particular issue can be more appropriately considered by that task force. For our part, we shall focus on those human resource issues which are directly related to the distribution and production of financial services, notably those of quality of service, levels of professionalism and the maintenance of independent advice.

The Canadian financial system is undergoing a period of rapid change and realignment. Governments must respond urgently yet thoughtfully to the calls for regulatory reform now emerging from the industry. Yet in order to serve the broader public interest, some consensus must be achieved in reconciling public policy goals with private interests. We encourage all parties to participate in the debate upon issues of such vital concern to the economic well-being of our province and our nation.

Appendix A

Ministry of Consumer and Commercial Relations **NEWS RELEASE**

June 13, 1984 **Financial Task Force Announced**

The creation of a Financial Institutions Task Force and the appointment of its three members was announced today by Consumer Minister Dr. Robert Elgie.

"The primary purpose of this task force will be to examine the organization and operation of financial institutions in Ontario and determine what pressures on that financial system may require attention from government," Dr. Elgie said in a statement to the Legislature. He said he expected an interim report, setting out recommendations concerning any issues that the Task Force believes the government might want to consider immediately, would be completed before the end of the year.

Dr. J. Stefan Dupré will chair the advisory group. Dr. Dupré is a widely respected academic, professor of political science, former chairman of the department of political economy at the University of Toronto and the chairman of the recently completed Royal Commission on asbestos in the workplace.

Also appointed to the Task Force was Alexander MacIntosh, Q.C., a partner in the Toronto law firm of Blake, Cassels and Graydon, Deputy Governor of the Hudson's Bay Company, chairman of the board of Canadian Corporate Management Company Ltd., as well as a director of nine major Canadian corporations, including the Canadian Imperial Bank of Commerce.

The third member of the Task Force is Rendall Dick, Q.C., the Under Treasurer of the Upper Canada Law Society and the former Deputy Treasurer of Ontario, Deputy Provincial Secretary for Justice, Deputy Minister of Justice and Deputy Attorney General.

Dr. Elgie emphasized that the three appointees bring together a critical balance of academic, business and government expertise needed to deal with questions affecting financial institutions in Ontario.

"I have carefully considered the potential for any perceived conflict of interest on the part of the task force members and I am completely satisfied that such potential is outweighed by the wide-ranging expertise and personal integrity of each member of the task force," he said.

The roles of financial institutions in Ontario have by tradition and legislation been segregated into the so-called "four-pillars" of the financial community; chartered banks, trust companies, insurance companies and investment dealers. Each has carried out distinct but complementary functions. Today, however, those roles have become less distinct and there is considerable pressure for such change to continue.

Legislation affecting three of the four financial pillars is administered by the Ministry of Consumer and Commercial Relations. In addition to the growing competition between themselves, Ontario trust companies, insurance companies

and investment dealers find federally chartered banks trying to compete for their traditional markets.

Dr. Elgie said he expected the interim report to include:

- recommendations concerning any issues that the Task Force believes the government might want to consider immediately,
- the Task Force's proposed course of action for the review of the key issues it proposes to address in its final report; and,
- the manner in which the Task Force proposes to engage in open consultation with the financial community, its client groups and the public in the course of its future work.

In his letter to the three appointees, Dr. Elgie posed some of the key questions which the Task Force should consider, including:

- To what extent have financial institutions operated on the basis of segregated services? What are the major factors creating pressures to change from segregated services to integrated services?
- What, if any, real and long-term benefits might integrated financial services provide to the capital markets and to the consumer? If any degree of integration of financial services is in the public interest, does this integration require additional regulatory procedures or safeguards to protect consumer and investor interests?
- What is the likely impact on Ontario financial institutions of the development in the United States and elsewhere of integrated financial services? How might these changes elsewhere affect the national and international competitiveness of our financial services sector?
- How are the economic well-being and public interests of the Province served by maintaining the traditional separation of financial services? Should the four-pillar concept be maintained, totally, or substantially but allowing some further duplication of services in selected and limited areas, or is there a different basis upon which financial services should be delivered and regulated?
- If financial services are to be segregated in the future, in whole or in part, what, if any, regulation or control of cross-ownership, upstream holding companies and subsidiaries, including downstream holding companies, is required? Is networking of financial services among various participants in the financial system desirable?
- To what extent can Ontario's position in the capital markets be adversely affected by either existing or proposed federal or other provincial initiatives?
- Do any of the changes in the ownership, organization, or operation of financial institutions in Ontario's financial system indicate a need for a review of the government's policies on foreign and domestic ownership?
- What steps can the government take to resolve or reduce the differences among the regulatory practices of the various jurisdictions involved in regulating participants in the financial system in Ontario?
- What role should credit unions and caisses populaires play in the Ontario financial system? Are any changes in regulatory policy necessary?

In making recommendations, the Task Force is asked to consider and report upon the impact of any changes required in the delivery or regulation of financial services of persons presently employed by or acting as agents for financial institutions.

Appendix B: Public Opinion Survey

The following survey was conducted at the request of the Task Force by the survey research organization of Decima Research Limited.

The sample of 600 cases was drawn from all residents of Ontario, 18 years or older on the basis of a 50/50 sex quota. The sampling technique produced a sample with a probability of selection proportionate to the population size of five regions of Ontario, i.e. 86 respondents from Eastern Ontario, 149 respondents from North/Central Ontario, 67 respondents from Southwest Ontario, 151 respondents from Metro Toronto and 147 respondents from the 'Golden Horseshoe'.

Interviewing was done by telephone on Monday, November 5, 1984 and Tuesday, November 6, 1984, between the hours of 5:30 P.M. and 10:00 P.M.

The sample produces results which are accurate for the population of Ontario as a whole within $\pm$ 4 percentage points 95 out of 100 times.

B. INTERVIEW SCHEDULE

A.	Are you 18 years of age or older and a resident of Ontario?	YES (CONTINUE)................A NO (ASK TO SPEAK TO ELIGIBLE RESPONDENT, IF STILL "NO," THANK AND TERMINATE)........B	
1.	There is a lot of talk these days about deregulating all sorts of industries. One of these industries might be financial institutions, where deregulation would mean allowing banks, brokerage houses, trust companies, and insurance companies to sell the same types of products and services to the public. Generally speaking, would you strongly favour, favour, oppose, or strongly oppose the deregulation of financial institutions?	STRONGLY FAVOUR...............1 FAVOUR........................2 OPPOSE........................3 STRONGLY OPPOSE...............4 NO OPINION (VOLUNTEERED)......5	(7%) (45%) (33%) (8%) (8%)

All things considered, would you say that at the present time you would be very confident, somewhat confident, not too confident, or not at all confident about the safety of the money you might put...(READ ITEMS 2-6, ROTATING ORDER)

		VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT	NO OPINION (VOL)
2.	in an account at a chartered bank?	(60%)	(33%)	(6%)	(2%)	(0%)
3.	in a policy with an insurance company?	(29%)	(42%)	(21%)	(7%)	(2%)
4.	in an account at a trust company?	(30%)	(42%)	(20%)	(8%)	(1%)

Note 1: Responses may not sum to 100 percent due to rounding throughout the Technical Appendixes.

2: (*) denotes a percentage value greater than 0 but less than 0.5 throughout the Technical Appendixes.

		VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO CONFIDENT	NOT AT ALL CONFIDENT	NO OPINION (VOL)
5.	in an investment account with a brokerage house?	(9%)	(32%)	(39%)	(15%)	(6%)
6.	in an account with a credit union?	(30%)	(42%)	(17%)	(9%)	(2%)

END OF ROTATION

Would you like to see more or less government involvement in regulating...(READ ITEMS 7-11, ROTATING ORDER)

		MORE	NO CHANGE (VOL)	LESS	NO OPINION (VOL)
7.	trust companies?	(43%)	(19%)	(36%)	(2%)
8.	insurance companies?	(47%)	(19%)	(32%)	(2%)
9.	brokerage houses?	(39%)	(21%)	(34%)	(6%)
10.	credit unions?	(35%)	(24%)	(38%)	(3%)
11.	chartered banks?	(34%)	(28%)	(37%)	(1%)

END OF ROTATION

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12. To your way of thinking, who has the most responsibility for insuring the safety of money deposited with financial institutions in Ontario...the institutions themselves, the Ontario government, the individual consumer, or the federal government?

THE INSTITUTIONS	1	(37%)
THE ONTARIO GOVERNMENT	2	(13%)
THE INDIVIDUAL CONSUMER	3	(15%)
THE FEDERAL GOVERNMENT	4	(34%)
ALL (VOLUNTEERED)	5	(1%)
OTHER (SPECIFY)	6	(1%)
NO OPINION (VOLUNTEERED)	7	(1%)

I'm going to read you a few statements that people have made about the different types of financial institutions in Ontario. I'd like you to tell me whether you strongly agree, agree, disagree, or strongly disagree with each. The first statement is...(READ ITEMS 13-16, ROTATING ORDER)

	STRONGLY AGREE	AGREE	DISAGREE	STRONGLY DISAGREE	NO OPINION (VOL)
13. Insuring the stability of Ontario's financial institutions is really the responsibility of the Ontario government.	(8%)	(55%)	(33%)	(4%)	(1%)
14. Insuring that one's money is placed in a stable financial institution is really the responsibility of the individual consumer.	(19%)	(56%)	(21%)	(4%)	(1%)
15. Insuring the stability of Ontario's financial institutions is really the responsibility of the institutions themselves.	(15%)	(62%)	(20%)	(3%)	(*)
16. Insuring the stability of Ontario's financial institutions is really the responsibility of the federal government in Ottawa.	(12%)	(45%)	(36%)	(7%)	(1%)

END OF ROTATION

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17. Would you be very concerned, somewhat concerned, not too concerned, or not at all concerned if a financial institution in which you had deposited money were to go bankrupt?

VERY CONCERNED	1	(92%)
SOMEWHAT CONCERNED	2	(5%)
NOT TOO CONCERNED	3	(2%)
NOT AT ALL CONCERNED	4	(1%)
NO OPINION (VOLUNTEERED)	5	(*)

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18. Would you be very concerned, somewhat concerned, not too concerned, or not at all concerned if a financial institution in which you had <u>not</u> deposited money were to go bankrupt?

VERY CONCERNED	1	(41%)
SOMEWHAT CONCERNED	2	(39%)
NOT TOO CONCERNED	3	(13%)
NOT AT ALL CONCERNED	4	(8%)
NO OPINION (VOLUNTEERED)	5	(0%)

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19. To the best of your knowledge, is the money you have deposited in a bank insured so if the bank were to go bankrupt you would get at least some of your money back?

YES (GO TO Q20)	1	(85%)
NO (SKIP TO Q21)	2*	(11%)
NO OPINION (VOLUNTEERED)	3	(5%)

IF "YES" TO Q19, ASK:

20. If you had $100,000 dollars in a bank that went bankrupt how many dollars would you be guaranteed to get back? (READ LIST)

$10,000	01	(7%)
$20,000	02	(14%)
$30,000	03	(3%)
$40,000	04	(3%)
$50,000	05	(15%)
$60,000	06	(21%)
$70,000	07	(5%)
$80,000	08	(3%)
$90,000	09	(1%)
ALL -- $100,000	10	(24%)
NO OPINION (VOLUNTEERED)	11	(4%)

21. To the best of your knowledge, is the money you have deposited in a credit union insured so if the credit union were to go bankrupt you would get at least some of your money back?

YES (GO TO Q22)	1	(68%)
NO (SKIP TO Q23)	2*	(25%)
NO OPINION (VOLUNTEERED)	3	(8%)

IF "YES" TO Q21, ASK:

22. If you had $100,000 dollars in a credit union that went bankrupt how many dollars would you be guaranteed to get back? (READ LIST)

$10,000	01	(10%)
$20,000	02	(12%)
$30,000	03	(5%)
$40,000	04	(3%)
$50,000	05	(19%)
$60,000	06	(14%)
$70,000	07	(5%)
$80,000	08	(3%)
$90,000	09	(1%)
ALL -- $100,000	10	(21%)
NO OPINION (VOLUNTEERED)	11	(6%)

23.	To the best of your knowledge, is the money you have deposited in a trust company insured so if the trust company were to go bankrupt you would get at least some of your money back?	YES (GO TO Q24)...............1	(74%)
		NO (SKIP TO Q25)..............2*	(22%)
		NO OPINION (VOLUNTEERED)......3	(4%)

IF "YES" TO Q23, ASK:

24.	If you had $100,000 dollars in a trust company that went bankrupt how many dollars would you be guaranteed to get back? (READ LIST)	$10,000....................01	(10%)
		$20,000....................02	(15%)
		$30,000....................03	(3%)
		$40,000....................04	(3%)
		$50,000....................05	(17%)
		$60,000....................06	(21%)
		$70,000....................07	(4%)
		$80,000....................08	(3%)
		$90,000....................09	(1%)
		ALL -- $100,000............10	(20%)
		NO OPINION (VOLUNTEERED)...11	(4%)

25.	To the best of your knowledge, is the money you have deposited in an investment account in a brokerage house insured so if the brokerage house were to go bankrupt you would get at least some of your money back?	YES (GO TO Q26)...............1	(42%)
		NO (SKIP TO Q27)..............2*	(49%)
		NO OPINION (VOLUNTEERED)......3	(9%)

IF "YES" TO Q25, ASK:

26.	If you had $100,000 dollars in a brokerage house that went bankrupt how many dollars would you be guaranteed to get back? (READ LIST)	$10,000....................01	(11%)
		$20,000....................02	(13%)
		$30,000....................03	(9%)
		$40,000....................04	(4%)
		$50,000....................05	(21%)
		$60,000....................06	(11%)
		$70,000....................07	(3%)
		$80,000....................08	(3%)
		$90,000....................09	(2%)
		ALL -- $100,000............10	(20%)
		NO OPINION (VOLUNTEERED)...11	(4%)

27. To the best of your knowledge is the money you have paid to a company for an insurance policy insured so if the insurance company were to go bankrupt you would get at least some of your money back?

YES (GO TO Q28)	1	(64%)
NO (SKIP TO Q29)	2*	(30%)
NO OPINION (VOLUNTEERED)	3	(6%)

IF "YES" TO Q27, ASK:

28. If you had paid $10,000 dollars for an insurance policy and the company went bankrupt, how many dollars would you be guaranteed to get back? (READ LIST)

$1,000	01	(14%)
$2,000	02	(5%)
$3,000	03	(3%)
$4,000	04	(3%)
$5,000	05	(22%)
$6,000	06	(3%)
$7,000	07	(2%)
$8,000	08	(6%)
$9,000	09	(1%)
ALL -- $10,000	10	(34%)
NO OPINION (VOLUNTEERED)	11	(7%)

29. Some people say that they would prefer it if all financial institutions had to provide the consumer with an annual report or financial statement so that the consumer would be able to determine the stability of various financial institutions before deciding which one to deposit money with. Do you think this is an excellent, good, only fair, or poor idea?

EXCELLENT	1	(47%)
GOOD	2	(35%)
ONLY FAIR	3	(14%)
POOR	4	(4%)
NO OPINION (VOLUNTEERED)	5	(0%)

30. Realistically, if financial instititutions were to provide such financial information about themselves, do you think you you would make considerable use, moderate use, very little use, or no use at all of them when it comes to deciding with whom to deposit your money?

CONSIDERABLE USE	1	(44%)
MODERATE USE	2	(38%)
VERY LITTLE USE	3	(13%)
NO USE AT ALL	4	(5%)
NO OPINION (VOLUNTEERED)	5	(*)

31. Most of us keep a certain amount of cash in saving accounts and chequing accounts. Considering only the funds you have in these accounts, how much would you estimate that cash would total to roughly as of today? (DO NOT READ LIST)

LESS THAN $100	01	(8%)
$100-$200	02	(4%)
$201-$500	03	(8%)
$501-$1,000	04	(9%)
$1,001-$2,000	05	(10%)
$2,001-$3,000	06	(6%)
$3,001-$4,000	07	(3%)
$4,001-$5,000	08	(6%)
$5,001-$7,500	09	(4%)
$7,501-$10,000	10	(6%)
MORE THAN $10,000	11	(10%)
NO OPINION (VOLUNTEERED)	12	(27%)

Now, I have a few final questions for statistical purposes...

32. What is your age, please? (IF RESPONDENT REFUSES, OFFER TO READ CATEGORIES AND HAVE HIM/HER TELL YOU WHICH CATEGORY HE/SHE FALLS INTO)

18-19 YEARS	01	(5%)
20-24 YEARS	02	(14%)
25-29 YEARS	03	(15%)
30-34 YEARS	04	(14%)
35-39 YEARS	05	(14%)
40-44 YEARS	06	(8%)
45-49 YEARS	07	(9%)
50-54 YEARS	08	(6%)
55-59 YEARS	09	(5%)
60-64 YEARS	10	(4%)
65 YEARS OR OLDER	11	(7%)

33A. Are you currently attending school, college, or university as a full-time student?

NO (GO TO Q33B)	A	
YES (SKIP TO Q34)	6*	(9%)

IF "NO" TO Q33A, ASK:

33B. What is the highest level of schooling that you have completed?

PUBLIC/ELEMENTARY SCHOOL (GRADE 1-8)	1	(5%)
SOME HIGH SCHOOL	2	(16%)
GRADUATED HIGH SCHOOL (GRADE 12 OR 13)	3	(36%)
VOCATIONAL/TECHNICAL/ COLLEGE/CEGEP	4	(13%)
SOME UNIVERSITY	5	(6%)
GRADUATED UNIVERSITY	7	(15%)

34.	Which of the following income groups includes your annual household income? (READ CHOICES)	LESS THAN $ 5,000............01	(3%)
		$ 5,000 - $ 9,999............02	(6%)
		$10,000 - $14,999............03	(7%)
		$15,000 - $19,999............04	(12%)
		$20,000 - $24,999............05	(15%)
		$25,000 - $29,999............06	(15%)
		$30,000 - $34,999............07	(12%)
		$35,000 - $39,999............08	(8%)
		$40,000 - $44,999............09	(4%)
		$45,000 - $49,999............10	(4%)
		$50,000 AND OVER.............11	(14%)
35.	Sex. (BY OBSERVATION)	MALE..........................1	(50%)
		FEMALE........................2	(50%)

C. DERIVATION OF NEW VARIABLES

Q.57: STRATA #1

was derived from questionnaire identification numbers. The resulting categories were labelled as follows:

1.	EAST;	(14%)
2.	NORTH/CENTRAL;	(25%)
3.	SOUTHWEST;	(11%)
4.	GOLDEN HORSESHOE; and	(25%)
5.	TORONTO.	(25%)

Q.58: STRATA #2

was derived from questionnaire identification numbers. The resulting categories were labelled as follows:

1.	BALANCE ONTARIO; and	(75%)
2.	TORONTO.	(25%)

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